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Follow-up to and implementation of the outcome of the International Conference on Financing for Development

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Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (New York, 18 April 2005)

I. Introduction

1. The special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD) was held on 18 April 2005. The overall theme of the meeting was "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus: achieving the internationally agreed development goals, including those contained in the Millennium Declaration". The meeting had before it a note by the Secretary-General (E/2005/50) that provided background information and raised a number of questions.

2. The 2005 meeting was preceded by extensive consultations within the Economic and Social Council, and between the members of the Bureau of the Council and the management of the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development, as well as by separate meetings with Executive Directors of the International Monetary Fund (IMF) and the Executive Board of the World Bank. The President of the Council also met with the Chairperson of the General Council of the World Trade Organization and the President of the Trade and Development Board of the United Nations Conference on Trade and Development. In addition, the Bureau of the Council held a videoconference with the President of the Trade and Development Board. The agenda and the format of the special high-level meeting were discussed and mutually agreed upon at the above meetings.

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3. The consultations had resulted in agreement on three sub-themes that were the focus of substantive discussions in the six round tables that took place during the meeting. The three sub-themes were: (i) Policies and strategies; (ii) Trade, investment and private flows; and (iii) Official development assistance (ODA), innovative sources of financing and debt. The format of the meeting featured a brief opening plenary, including statements by the President of the Economic and Social Council, Munir Akram, the Secretary-General of the United Nations, Kofi Annan, the Chair of the Development Committee, Trevor Manuel, the President of the Trade and Development Board of UNCTAD, Mary Whelan, and the Representative of the Chair of the International Monetary and Financial Committee, Augustin Carstens. It was followed by six parallel and interactive round tables, two for each of the three sub-themes mentioned above. A resumed afternoon plenary was devoted to reporting on the discussions at the round tables and to further debate.

4. The chairs, co-chairs, lead discussants and discussants of the round tables were as follows: (round table A) Carin Jämtin, Minister for International Development Cooperation (Sweden) and Elias Saba, Minister of Finance (Lebanon) with Hilde F. Johnson, Minister of International Development (Norway) and Augustin Carstens, Deputy Managing Director of IMF, as lead discussants, and Suma Chakrabarti, Permanent Secretary, Department for International Development (United Kingdom of Great Britain and Northern Ireland), Burhanuddin Abdullah, Governor of the Central Bank of Indonesia, and Philippe Etienne, Director-General of International Cooperation (France), as discussants; (round table B) Willy Kiekens, Senior Executive Director of IMF, and Seraphine Wakana, Minister for Planning, Development and Reconstruction of Burundi, with Juan Somavía, Director-General (International Labour Organization) and Ian Goldin, Vice-President of the World Bank, as lead discussants, and Brigita Schmognerova, Executive Secretary, Economic Commission for Europe, and Ruth Jacoby, Director-General, Ministry for Foreign Affairs (Sweden), as discussants; (round table C) Fernando Canales Clariond, Minister of the Economy (Mexico), and Mary Whelan, President, UNCTAD Trade and Development Board, with Carlos Fortin, Officer-in-Charge, UNCTAD, and Cristian Popa, Deputy Governor of the National Bank of Romania, as lead discussants, and Mohammed-Jafar Mojarrad, Deputy Central Bank Governor of the Islamic Republic of Iran, as discussant; (round table D) Pierre Duquesne, Executive Director for the World Bank and IMF, and Abdul Hafeez Sheikh, Minister of Privatization and Investment (Pakistan), with Francisco Thompson-Flores, Deputy Director-General (WTO) and Bruce Montador, Vice-President, Canadian International Development Agency, as lead discussants, and Vladimir Tvaroska, State Secretary, Ministry of Finance (Slovakia), as discussant; (round table E) Manuel Chang, Minister of Finance (Mozambique), and Tom Scholar, Executive Director for the World Bank and IMF, with José Antonio Ocampo, Under-Secretary-General (United Nations Department of Economic and Social Affairs), Peter Ammon, Director-General, Federal Ministry for Foreign Affairs (Germany), and Richard Manning, Chair, Organization for Economic Cooperation and Development Development Assistance Committee, and Maria Luiza Viotti, Director-General, Department for Humanitarian and Social Affairs, Ministry of External Relations (Brazil), as discussant; (round table F); Anastas Angjeli, Minister of Economy (Albania), and Yahya Alyahya, Dean of the Board of the World Bank, with Rakesh Mohan, Secretary, Department of Economic Affairs, Ministry of Finance (India) as lead discussant, and Ron Keller, Director-General of International Cooperation, Ministry for Foreign Affairs (Netherlands), as discussant.

5. This year's meeting brought together an unprecedented number of high-level officials representing a wide variety of stakeholders. A large number of executive

and alternate directors of the Boards of the World Bank and of IMF and the Deputy Director-General of the World Trade Organization participated in the meeting. Senior officials of the United Nations, the World Bank, IMF, United Nations Development Programme and other United Nations agencies also took part in the event, as well as representatives of other international bodies, including the Chairman of the Development Assistance Committee of OECD. Other participants included ministers of finance and of development cooperation, governors of central banks and heads of international organizations, as well as high-level officials in the areas of trade, finance, development cooperation and foreign affairs (see E/2005/INF/1). Representatives of non-governmental organizations and the private sector also participated in the plenary meetings and round tables.

II. General considerations

6. In the view of many participants, the special high-level meeting assumed particular importance in 2005. There seemed to be a significant momentum to carry the international development agenda forward. Several of the key issues had been considered by ministers of finance and development cooperation during the meetings of the International Monetary and Financial Committee and the Development Committee in Washington, D.C., the two previous days. The report of the Secretary-General entitled "In larger freedom: towards development, security and human rights for all", the communiqués from the recent Washington meetings and the note by the Secretary-General for the present meeting reflected the magnitude of the national and international efforts required and the need for a holistic approach to development as agreed in the Monterrey Consensus. In June, the High-level Dialogue of the General Assembly on Financing for Development will examine progress in the implementation of the Monterrey Consensus. Following the Dialogue, the high-level segment of the Economic and Social Council will address progress towards the internationally agreed development goals. The outcomes of these meetings will constitute a key input to the High-level Plenary Meeting of the General Assembly in September 2005 on the implementation of the Millennium Declaration.

7. There was a general view that it was critical to continue to build momentum towards the High-level Plenary Meeting which would provide a unique opportunity to agree on the actions necessary to make possible the achievement of the Millennium Development Goals and to implement without delay the commitments agreed upon in the Monterrey Consensus; it could also provide the impetus for a successful outcome of the WTO Ministerial Conference in December 2005. Many participants stressed the need for immediate action since there was agreement on the international development goals and, at Monterrey, a consensus had emerged regarding main national and international policy orientations and concrete actions. The 10-year countdown to achieve the Millennium Development Goals had started.

8. A summary of the opening statements and subsequent deliberations, structured according to the three topics addressed in the six round tables and comprising the main aspects of the exchange of views and statements made at the afternoon plenary session, is set out below.

III. Policies and strategies

Mobilization of domestic resources for development

9. Several speakers stated that a national development strategy was an important instrument to achieve the Millennium Development Goals. Such a strategy had to be fully owned, that is, formulated within the country, and it should respond to the country's specific needs and circumstances. A clear long-term vision of development objectives was necessary as the guiding framework for short-term and medium-term policy actions and decisions.

10. According to several participants, adequate policy space was an important aspect in formulating the policy orientations. However, the increasing interdependence of national economies in a globalizing world and the emergence of rule-based regimes for international economic relations meant that the space for national economic policy was now framed by international discipline, commitments and global market considerations. Therefore, Governments needed to evaluate the trade-off between the benefits of accepting international rules and commitments and the constraints posed by a reduced policy space. It had become necessary to pursue an appropriate balance between national policy orientations and international disciplines and commitments.

11. A number of representatives stressed that a national development strategy should enhance the means to achieve an equitable distribution of the benefits of development and unleash the potential of the poor to generate and pursue development initiatives. While recognizing the importance of macroeconomic stability in securing strong and sustainable economic growth, some participants underlined the need to strike a balance between short-term macroeconomic objectives and long-term development goals; for example, fiscal discipline should be achieved in a medium-term framework and fiscal policies should not be pro-cyclical.

12. Several speakers underscored the difficulties faced by many countries in setting priorities. When a country faced poverty levels reaching two thirds of the population, and lacked skilled human resources and critical infrastructure, deciding on priorities was extremely hard; this was the situation in a significant number of developing countries, particularly in Africa. Official development assistance could provide additional resources to advance simultaneously on various fronts, but it had to be integrated into the national development strategy. In that context, some representatives pointed out the importance of more active recipient Government participation in directing aid.

13. Many speakers expressed the view that employment creation should constitute a critical element of the national development strategy, given its central role in reducing poverty and facilitating the achievement of the Millennium Development Goals. It was noted that job growth and economic growth were often disconnected; the assessment of the employment impact of development programmes and projects was therefore important. Some participants pointed out the need for investment and credit policies focusing on the self-employed and on micro-, small and medium-sized enterprises, since they created the bulk of jobs in virtually every country.

14. Good governance was underscored by a number of speakers as critical to a well-functioning market economy and the effective implementation of a national

development strategy. In particular, enhancing transparency at all levels and combating corruption were seen as essential. It was important that all countries, including OECD countries, ratify the United Nations Convention on Corruption. It was also important to consult with the various strands of civil society and incorporate them in development tasks.

15. According to some representatives, support for private sector-led growth was essential. In the overwhelming majority of countries, local private capital formation constituted the bulk of investment. It was necessary to remove costly obstacles to private investment and facilitate the channelling of savings to the creation and expansion of private business. A large informal sector, often the result of excessive regulations, was a drag on development. It was stressed that there was a need to strengthen the role of the State, including its role in improving the climate for private sector activity, by removing unnecessary regulations and enhancing the institutional regulatory and judicial frameworks for that activity. The development of the financial sector was a central task in many developing countries; indeed, an improved financial infrastructure was essential for private sector development, particularly for small and medium-sized enterprises.

Systemic issues: strengthening the multilateral system to promote development

16. Several participants stated that, while the world economic situation had improved and there were widespread gains in most regions, future progress faced unusual challenges. Global imbalances were huge and still widening, and oil prices remained volatile. Both factors called for difficult measures in individual countries alongside increased international cooperation and coordination. Some participants expressed concerns regarding the volatility of exchange rates, which partly explained the high level of foreign reserves accumulated by a number of developing countries. This accumulation represented a diversion of national resources from national development. A smooth reduction in global imbalances was important to reduce the risks of abrupt increases in interest rates and further volatility in exchange rates. That required, inter alia, more effective and focused IMF surveillance.

17. Many speakers underscored the importance of enhanced coherence. At the country level, improved collaboration was necessary among ministries of finance, development cooperation and foreign affairs to reduce incoherence. At the regional level, regional and subregional institutions as well as regional initiatives would benefit from increased coordination. At the multilateral level, there had been progress in coordination among key development institutions, i.e. the United Nations agencies and the international financial institutions. There was still a need, however, for greater coordination to reduce overlap and fragmentation, and to ensure that efforts towards achieving the Millennium Development Goals were optimized. Some representatives underlined that the task also required a clear division of labour, respectful of individual mandates and based on the sharing of specific expertise among institutions.

18. Several participants pointed out that many developing countries remained vulnerable to external economic shocks. It was noted that improving economic fundamentals was a key factor in reducing vulnerability. Some representatives

stressed the need for instruments in the international financial institutions that would help vulnerable countries better absorb those shocks. It was also necessary to give adequate attention to the concerns of middle-income countries in global economic discussions.

19. In the view of a number of speakers, the Monterrey Consensus had provided clear guidelines for greater participation of developing countries in international dialogue and decision-making processes. Effective governance was better served by democracy in decision-making. Thus, it was important to strengthen the voice and participation of developing countries in the international financial institutions and to ensure that this was done soon. Some speakers indicated that, in order to give adequate voting power to small countries in IMF, it was necessary to increase the number of basic votes.

IV. Trade, investment and private flows

International trade: policies and multilateral trade negotiations

20. Most representatives emphasized that international trade could make a substantial contribution to financing for development. They recalled the commitment in the Monterrey Consensus to a rule-based, open, non-discriminatory and equitable trading system. They stressed the urgency of moving quickly for a successful conclusion of WTO negotiations in 2006 on the basis of a truly development-oriented Doha agenda. It was necessary to make decisive progress in the WTO Ministerial Conference to be held in Hong Kong in December 2005. In the view of many participants, the critical elements in such negotiations were: improved market access for developing countries in agriculture, manufactures and services; elimination of trade-distorting non-tariff barriers; and provision of adequate preferential and differential treatment.

21. Several representatives pointed to the importance of addressing supply-side constraints in low-income countries, since increased market access did not necessarily lead to investments in productive capacity, including those made in infrastructure and transport systems. Moreover, the problems caused by dependence on commodities and natural resources in low-income countries deserved special attention. In particular, it was crucial to assist those countries in their diversification efforts. A number of speakers stressed the need to give priority to Africa in building trade-related infrastructure by substantially scaling-up development assistance, combined with trade-related technical assistance. There was a widespread view that aid for trade — in the form of bilateral and multilateral assistance to enable countries to benefit from increased market access — had a central place in international cooperation.

22. According to some participants, the current trading system had been undermining food security in parts of the developing world. Export subsidies were creating competitive price pressures on farmers in developing countries in their own domestic markets by reducing demand for domestically produced agricultural goods. Several representatives underscored the importance of the provision of duty-free and quota-free treatment of exports from the least developed countries.

23. It was noted that South-South trade had been growing at a rapid pace, and that regional integration was assuming increasing importance. It was stated that further regional integration could help to accelerate development. A number of speakers mentioned that developing countries themselves could assist the least developed countries by granting duty-free and quota-free treatment to their exports. Some participants observed that the movement of labour across countries was increasing substantially and that the policies on mode 4 — movement of labour to supply services — needed to be further examined in WTO discussions.

24. Several representatives emphasized the importance of an adequate sequencing of policies in particular of macroeconomic policies and liberalization of capital markets and trade. It was noted that there was a crucial link between international trade policies and policies to foster domestic and foreign investment.

Promoting investment and private flows

25. A nu nber of participants underscored the need to generate a favourable environment for business that included an adequate regulatory environment, rule of law, respect for property rights, transparency and an enabling infrastructure, which were all important factors for domestic and foreign investors. Macroeconomic policies leading to a degree of stability were also important. The multilateral organizations could play a significant role in assisting private sector development through advice and capacity-building in the areas of policy formulation and implementation, as well as by enhancing the institutional and physical infrastructure and the provision of information. Some speakers stated that South-South foreign investment was on the increase and should be encouraged.

26. While some representatives pointed out some success stories, particularly in transition economies, others stressed that a number of developing countries were still lagging in reforms to improve the investment climate. The latter countries had not made significant progress in addressing weak regulatory regimes and lacked effective market institutions; they also faced difficult choices regarding the political economy of reform. The challenge of implementing such reforms was particularly large in small, fragile countries.

27. Several speakers underscored the need for more extensive dialogue between private and public sectors regarding specific policies to strengthen the investment climate. Such dialogue between policymakers and stakeholders was an important aspect of the democratic process. Also, there was a need for a clearer definition of private-public partnerships and the problems they were meant to solve. While the track record of such partnerships had been mixed, they could play an important role in a number of areas. Some representatives stressed that the partnerships were more sustainable when private participation was underpinned by a genuine business interest and there existed a commonality of interest. In small States that were struggling to attract purely private investment, private-public partnerships could be critical; however, that avenue was particularly challenging in small States, as weak governance could result in control by vested interests.

28. A number of speakers expressed concerns regarding the stability of international private financial flows. Besides enhanced macroeconomic fundamentals and improved multilateral precautionary arrangements, including sufficient official liquidity, floating exchange rates could be helpful. Some

participants stressed the need to adopt the appropriate kind of prudential regulations in developing countries, particularly important at a time of growing flows involving new financial instruments. There was the view that, in capital markets, long-term flows should be liberalized before short-term ones.

29. A number of participants emphasized that increased borrowing in the local currency by developing and transition countries, both internally and from foreigners, should be encouraged. This would reduce the severity and risk of financial crises by limiting currency mismatches. The task required improvements to the domestic financial structure and the ability to develop suitable investment instruments and to issue significant amounts of domestic currency debt. Research by financial experts suggested that it was possible to develop an investment instrument out of a portfolio of domestic currency assets that could be attractive to foreign investors.

30. Some speakers noted the importance of developing private capital markets in Africa. African stock markets were undervalued: their price-earnings ratios were considerably lower than those of the Standard and Poor 500, though their rate of return in 2003 and 2004 had been considerably higher than the rate in Latin America or Europe. Moreover, market volatility of portfolio investments was not a serious problem in Africa (especially in equity markets in Egypt and South Africa), particularly when compared to other markets. The lack of transparency in the working methods of rating agencies was also noted. Transparency should be enhanced, since ratings had a significant impact on the ability of countries to gain access to capital from global financial markets.

31. Remittances from migrant workers continued to increase and largely exceeded official development assistance; in some countries, they were the largest source of foreign exchange. Several participants stated that, although very important for social reasons, the development dimension of remittances could be questioned. In small, low-income countries, migration of skilled labour was particularly burdensome, even if it led to larger remittances. Yet, according to a number of representatives, remittances would continue to increase due to migratory pressures in labour-exporting countries and ageing populations in labour-receiving countries. The issue was to ensure a low cost of transfer of such flows and to continue to examine initiatives and guidelines to use a substantial part of remittances for development purposes.

V. Official development assistance, innovative sources of finance and debt

Aid: volume, quality and main objectives

32. Many participants said that the Monterrey Consensus called upon donors that had not yet done so to reach the target of 0.7 per cent of gross national product as ODA. ODA remained short of both that target and the amount needed to meet the Millennium Development Goals. A rapid increase in aid flows was necessary. It was stated that although ODA had increased significantly since Monterrey, caution in interpreting numbers was necessary, since they embraced debt cancellation, technical assistance and humanitarian assistance. Actual cash transfers for development and poverty eradication programmes had barely grown.

33. A number of representatives noted that commitments were increasing, including those by non-Development Assistance Committee donors. The European Union had a new intermediate target (0.56 per cent of gross national income) for 2010 and several of its member countries were committed to scaling up their aid efforts beyond that date. However, some representatives questioned the opportunity of a global time frame and called for a focus on aid achievements rather than on commitments. It was pointed out that aid dependence was not conducive to self-sustaining development and that one key objective should be to avoid the aid trap.

34. Several speakers underlined that, for aid to be effective, recipient countries should receive more predictable, long-term, unconditional ODA. This would allow recipient countries to better integrate aid flows into the design of their development strategy. It was also underscored that an appropriate mix should be found of aid flows into human development, infrastructure and other investments, in particular the universal provision of electricity services. Front-loading of aid was critical in the efforts to reach the Millennium Development Goals. The special aid needs of fragile States were also recognized; such countries required, if possible, grants. A number of participants welcomed the successful conclusion of the fourteenth replenishment of the Development International Association (IDA 14).

35. Aid coordination and harmonization were described by many speakers as crucial factors in improving aid effectiveness. Progress had taken place on both issues, as reflected in the deliberations of the Paris High-level Forum on Aid Effectiveness in March 2005. Further progress was, however, necessary. Indeed, several participants viewed aid as still too donor-driven and conditional; streamlining conditionality was therefore necessary.

36. Sustainable programmes in health and education were critical for the achievement of the Millennium Development Goals. It was stressed that this required regular funding, on both a short-term and a long-term basis, by Governments and — in the case of low-income countries — through more stable and predictable ODA. The latter was essential for sub-Saharan Africa since the regional literacy rates and technical skills, both key preconditions for development, were low compared to those of other developing countries. Some representatives also pointed out that ODA programmes needed to be tailored to private sector development, as the expansion of the private sector was important for economic growth and increasing employment.

Innovative sources of finance

37. Many participants expressed support for innovative sources of finance, such as the International Financing Facility proposed by the United Kingdom of Great Britain and Northern Ireland, as well as other proposals made in the context of the Initiative against Hunger and Poverty launched by President da Silva of Brazil in 2004. The innovative sources of finance should be additional to ODA commitments and should not distract donors from achieving the 0.7 per cent target. Several representatives concurred that the new innovative sources were critical for a quantum jump in aid and to ensure the achievement of the Millennium Development Goals. The initiative of a group of five countries (Brazil, Chile, France, Germany and Spain) involved technical development of various proposals on innovative mechanisms of public and private financing that was both compulsory and

voluntary. The initiative had received widespread support — from 112 countries — at the Summit of World Leaders for Action against Hunger and Poverty, held in New York in September 2004.

38. A number of speakers pointed out that the recent Development Committee meeting had addressed the issue of innovative sources of development financing and had welcomed further work on the issue. The negotiations among interested parties on the proposed pilot programme on immunization to be financed by an arrangement similar to the International Financing Facility scheme were well advanced. Also, the Development Committee noted the political momentum for the various proposals and invited the Bretton Woods institutions to deepen their analysis of the most promising internationally coordinated and nationally applied taxes for development.

39. Regarding implementation, some participants pointed out that the new sources should generate stable and predictable flows and should be acted upon soon so that they have a timely impact for the achievement of the Millennium Development Goals. Other participants expressed reservations about: the limited absorptive capacity in recipient countries; how the additional aid could be delivered; the fact that taxes could involve additional costs; and the complexity of the fiscal budget implications of the International Financing Facility in donor countries. Moreover, some donor countries were opposed to the idea of global or international taxes, although it was also emphasized that the taxes being proposed would be internationally coordinated but nationally imposed.

40. It was stressed that while the innovative proposals covered a broad spectrum (taxes on international financial transactions, air travel, global public goods, arms sales; the use of special drawing rights and of remittances for development purposes; private donations and other types of voluntary contributions), some of the proposals were at an advanced stage of development, did not require universal acceptance and could be acted upon by those countries ready to do so. Many representatives underscored the importance of an incremental approach: advancing with pilot projects that could mobilize some or many contributing countries, while taking advantage of the existing momentum to broaden support and build consensus in the other proposals already under examination.

External debt

41. Several representatives pointed out that there had been progress in implementing the Heavily Indebted Poor Countries (HIPC) Initiative, even though many HIPC countries still had a huge debt burden. Many speakers expressed the view that there was an urgent need to go beyond the current enhanced HIPC framework and agree on a more ambitious debt reduction initiative. There was also a need to consider the situation of debt-distressed non-HIPC low-income countries as well. Some representatives underscored that the international community should also exert additional efforts to reach a consensus on a comprehensive framework for solving the debt problems of middle-income developing countries.

42. Many speakers stated that debt sustainability analysis was an important element in improving debt management. There were different views regarding approaches to defining debt sustainability in the context of key national objectives. Some participants believed that the concept of sustainable debt should be the debt

level at which a country could implement strategic programmes for development. It could also be defined in terms of the resources needed to achieve the Millennium Development Goals which, in a considerable number of cases, could involve 100 per cent debt forgiveness.

43. Many speakers referred to the large reverse financial transfers in different contexts in the course of the dialogue. Debt cancellation did not necessarily lead to net flows. Moreover, when countries had no capacity to service their external debt, debt cancellation did not generate more resources for development, although it did improve debt indicators. Thus, according to several representatives, it was important to address debt relief programmes as supplementary to ODA, and for them to be linked to time frames for increased ODA disbursements.

44. Some participants stated that collective action clauses were a useful feature of debt restructuring. Debt swaps, including those for environmental purposes, were also mentioned as a potentially useful tool. In the case of vulnerable low-income countries, grants were viewed by many representatives as the preferred vehicle to assist in accelerating development and preventing a debt build-up that could prove unsustainable. Some representatives still had reservations because such an approach prevented the creation of a track record to establish credit-worthiness and could adversely affect the long-term availability of resources from the concessional lending facilities of multilateral development banks.